Vadilal Enterprises Limited

October 04, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	7.50	CARE BBB+; Stable	Assigned
Long Term Bank Facilities	2.00 (Reduced from 10.00)	CARE BBB+; Stable	Revised from CARE BBB; Stable
Long Term / Short Term Bank Facilities	1.00 (Enhanced from 0.50)	CARE BBB+; Stable / CARE A2	Revised from CARE BBB; Stable / CARE A3+

Details of facilities in Annexure -1

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Vadilal Enterprises Limited (VEL) considers significant growth in its scale of operations in FY23 (Audited; FY refers to period from April 01 to March 31) coupled with improvement in overall financial risk profile of Vadilal Industries Limited (VIL); flagship company of Vadilal group. The ratings also take cognizance of sustained performance of VEL in Q1FY24 (Provisional)

The ratings, further, continue to derive strength from vast experience of its promoters, long-standing track record with established operations of VEL in ice-cream business and more than a century old presence of the 'Vadilal' brand in the domestic ice-cream market supported by its strong marketing and distribution network. The ratings also derive strength from strong operational linkage with VIL due to VEL's exclusive rights for selling and distribution of ice-cream and other products manufactured by VIL in the domestic market, VEL's comfortable capital structure as well as debt coverage indicators and its adequate liquidity.

The above strengths are, however, tempered on account of very thin profitability margin of VEL due to trading nature of its operations, modest networth base and high competition in the ice-cream segment from the organized as well as un-organized players. The ratings are also constrained by pending outcome of investigation on certain matters which has formed the basis for auditor's qualified opinion.

Rating Sensitivities: Factors likely to lead to rating actions

Positive Factors

- Improvement in profile of VIL
- Improvement in tangible net worth base to above Rs.50 crore while maintaining overall gearing below 1 times on sustained basis

Negative Factors

- Deterioration in financial risk profile of VIL for whom VEL acts as a marketing arm
- Any materially negative outcome arising from the on-going independent investigation being conducted on the matters referred under qualified opinion issued by its statutory auditors in their audit report for FY23
- Deterioration in debt coverage indicators with interest coverage of less than 5 times and TDGCA of more than 1 times

Analytical Approach: Standalone while factoring its strong operational and managerial linkages with flagship company, VIL.

Outlook: Stable

The 'Stable' outlook reflects CARE Ratings' opinion that the entity will continue to benefit from its established presence in the ice-cream segment with strong brand name and distribution network which shall enable the company to sustain its comfortable financial risk profile over the medium term.

Detailed description of the key rating drivers:

Key Rating Strengths

Growth in scale of operations in FY23

In FY23, VEL's TOI grew significantly by ~70% Y-o-Y to Rs.930 crore [PY: Rs.547 crore] due to rise in domestic consumer demand leading to higher sales volume coupled with increase in price realization. The demand was driven by substantial

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

increase in VEL's marketing efforts as marked by ~150% increase in VEL's marketing expenditure in FY23. Further, VEL registered ~5% Y-o-Y increase in its TOI to Rs.435.73 crore in Q1FY24 [PY: Rs.416.94 crore].

Improvement in overall financial risk profile of VIL

VIL's TOI, on consolidated basis, grew significantly by 52% Y-o-Y to Rs.1,066 crore in FY23 due to rise in domestic consumer demand on the back of increasing marketing efforts leading to higher sales volume coupled with increase in price realization. During Q1FY24 also, VIL's scale of operations sustained, registering ~4% Y-o-Y increase in TOI to Rs.412.56 crore as against Rs.394.86 crore in Q1FY23. VIL's PBILDT margin also improved by 138 bps Y-o-Y and remained healthy at 15.99% in FY23 [PY: 14.61%] with benefit derived from growth in scale of operations. In tandem, PAT margin also increased by 266 bps Y-o-Y to 9.04% in FY23 [PY: 6.38%]. PBILDT margin and PAT margin of the company increased substantially by 569 bps and 469 bps respectively on Y-o-Y basis and remained healthy at 25.66% and 17.21% respectively in Q1FY24 owing to better cost optimization in line with regularization of freight cost as well as benefit from operating leverage. In line with increased profitability, VIL's debt coverage indicators also improved in FY23 as well as in Q1FY24. During the current year, on the back of improved profitability VIL had free cash and investments of Rs.88 crore.

Experienced promoters

VEL is promoted by the promoters of VIL and both companies operate under common management. Currently, the operations of VEL are managed by the third and fourth-generation of the Gandhi family. Mr. Rajesh Gandhi, Chairman and managing director, looks after the overall operations of the company, Mr. Devanshu Gandhi, Director, looks after the sales, marketing and distribution functions.

Exclusive rights for selling & distribution of 'Vadilal' brand products in the domestic market

VEL acts as the marketing arm for selling and distribution of Vadilal brand Ice-cream, frozen desserts and processed food products manufactured by VIL in India, thereby entailing strong operational linkages between the two companies with VEL's prospects being closely linked to that of VIL. VIL decides selling price to VEL after considering all expenses including debt repayement as well as marketing and distribution expenses incurred by VEL and VIL also supports VEL's cash flow though extended credit period. While VIL has its own overseas subsidiaries for selling and distribution of its products in foreign countries, its selling and distribution for the Indian market is looked after by VEL on an exclusive basis.

***Long standing track record with an over century old brand* 'Vadilal'**

The brand 'Vadilal' has been enjoying a well-known legacy for more than a century in the domestic ice-cream and frozen dessert business. The Vadilal brand Ice cream and Processed Food Products are being served across the pan India except Southern States. The product portfolio of VIL's ice-cream and frozen dessert includes more than 150 flavors and varieties in different forms like cups, candies, cones, kulfis, tubs, large packs, etc. Apart from ice-cream and frozen dessert, the group also ventured into processed food business under the brand 'Quick Treat'. Further, the revenue stream of VEL is also moderately diversified geographically as it earns majority of its ice-cream revenue from the states of Gujarat, Rajasthan, Uttar Pradesh and Haryana; whereas balance comes from other states.

Strong marketing and distribution network

VEL has marketing presence in 28 states of India with the support of 70 C&F agents, over 1,500 distributors and 300 distribution vehicles. VEL also offers a wide range of ice-cream and frozen desserts through nearly 100 SKUs (Stock Keeping Units) in leading modern trade outlets like Reliance Fresh, More, Hyper City, D-Mart, Food Bazaar and Star Bazaar, etc. There are 65 'happinezz' and 'Hangout' parlours which are given by the Vadilal group on franchisee basis to third parties.

Comfortable capital structure and debt coverage indicators albeit on a modest networth base

As on March 31, 2023, VEL's overall gearing was comfortable at 0.69 times as on March 31, 2023 [PY: 1.38 times]. The improvement was on the back of increase in networth base which however continued to remain modest at Rs.10.49 crore as on March 31, 2023. VEL's capital structure is expected to remain leveraged in FY24 owing to newly availed term loans worth Rs.28.50 crore for purchase of freezers which the company provides to retailers.

The debt coverage indicators of VEL remained comfortable and relatively stable over the previous year as marked by interest coverage ratio of 6.67 times [PY: 5.62 times] and TDGCA of 0.44 times [PY: 0.43 times] in FY23. The same is expected to moderate to some extent on the back of debt availed albeit is expected to continue to remain comfortable.

Key Rating Weaknesses

Thin profitability margin

VEL's profitability remained thin due to low value-added trading nature of its operations as marked by PBILDT margin of 0.96% in FY23. PBILDT margin moderated by 127 bps Y-o-Y owing to higher cost price decided by VIL. VEL has strong operational and financial linkage with VIL and hence price is decided by VIL in a manner that it covers the expenses incurred by VEL including debt repayment and marketing and distribution costs. In line with thin operating profit margin, VEL reported thin PAT margin of 0.66% in FY23 [PY:0.40%]. Profitability is expected to remain thin going forward despite of envisaged growth in TOI. Overall GCA in last three years ended FY23 remained around Rs.14-16 crore despite fluctuation in TOI due to discretionary selling pricing by VIL.

High competition in the ice-cream segment from the organized as well as un-organized players

Indian ice-cream market is largely dominated by un-organized players with innumerable small and seasonal companies doing the business in various regions. Further, there are large number of big and medium-sized ice-cream companies in India which leads to a highly competitive environment. Although, there is a huge opportunity for industry players since India is one of the fastest growing markets for ice-cream consumption due to its large population and growing per capita income; however, VEL faces high competition from various other established brands like Amul, Havmor, Kwality Walls, Cream Bell, Mother Dairy, Top 'N' Town, Dinshaw's, etc in its various key markets. In addition, Vadilal faces competition from unorganized ice-cream manufactures at local level.

Pending outcome of investigation on certain matters which has formed the basis for issuing of disclaimer of opinion by its statutory auditors in their audit reports from FY19 to FY23

On account of various disputes between two brothers of the promoter group who were also on the Board of VIL and VEL, auditor had issued disclaimer of opinion on the accounts for FY19. However, post that, the promoter directors have withdrawn their major counter claims against each other, and the quarterly results of the company are also getting published within timelines. Further, both promoter brothers also got re-appointed as Managing Directors of VIL.

An external law firm & CA firm were appointed by independent board members to verify the left out claims of the promoters. During FY21, the company had already received interim audit report on certain matters which exhibited no adverse observations or findings regarding the allegations related to operational and management matters. However, the auditor maintained a qualified opinion due to pending receipt of the report over other allegations levelled by the promoter directors on each other over potential personal expenses that were claimed as business expenses. Further, a new allegation was raised by a promoter director in FY21 in VEL, relating to matter involving operations and management issue wherein marketing expenses of advertisement amounting to Rs.38 crore paid by the company during the period FY16 to FY19 was allegedly done without following the due process. This matter were also handed over to same independent CA firm and law firm to investigate and report of the same is still pending.

Moreover, one of the promoter group (Virendra Gandhi and family) had filed a petition in FY18 against the Vadilal group in National Company Law Tribunal (NCLT, Ahmedabad Bench) for alleged oppression and mismanagement. The said matter is currently subjudice and no decision has been arrived yet. Resolution of the said allegation as well as NCLT matter will remain key rating monitorable.

Liquidity: Adequate

VEL's liquidity remained adequate considering its linkage with VIL and VIL's healthy GCA levels compared to its low repayment obligations. Furthermore, on standalone basis as well, VEL had low utilization of working capital limits and availability of free cash and bank balance of Rs.7.04 crore as on March 31, 2023.

VEL's CFO decreased from Rs.24.73 crore in FY22 to Rs.7.65 crore in FY23 due to increase in inventory and receivables as on March 31, 2023. VEL is expected to generate cash accruals of ~Rs.18-25 crore against scheduled debt repayment obligation of ~Rs.1.5-9 crore in FY24-FY26 period. Average fund based working capital utilization remained at ~15% p.a. in past 12 months ended in June, 2023. Operating cycle of the company continued to remain short due to higher creditors (including VIL) as on March 31, 2023.

As on August 31, 2023, VIL had liquid investments of ~Rs.34 crore on the back of profit generated in current year and release of funds from working capital.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks:

Risk Factors	Compliance and action by the company
Environmental	1. Power consumption The same is mitigated by increasing usage of renewable source of energy. 2. Plastic packaging material It is mitigated by overall use of virgin plastic material, which is designed for recycling. 3. Use of water The same is mitigated by conserving, limiting usage, facilitating re-use.
Social	None
Governance	1. Though VEL is the public entity, promoters of the company have the majority shareholding. VIL's board of director have five directors which include two independent directors. 2. Corporate governance related litigations are on-going As per above point

Applicable Criteria

[Policy on default recognition]
[Factoring Linkages Parent Sub JV Group]
[Financial Ratios – Non financial Sector]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Credit Watch]
[Short Term Instruments]
[Wholesale Trading]
[Policy on Withdrawal of Ratings]

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Services	Services	Commercial Services & Supplies	Trading & Distributors

About the company

Ahmedabad-based Vadilal Enterprises Limited (VEL, CIN: L51100GJ1985PLC007995), which was incorporated in 1985, primarily acts as the marketing arm for selling and distribution of Vadilal brand Ice-cream, frozen desserts and processed food products manufactured by VIL in India. The company is promoted by the promoters of VIL. Both these companies operate under the common management platform.

Brief Financials (Rs. crore)	FY22 (A)	FY23 (A)	Q1FY24 (UA)
Total operating income	547.37	929.83	435.73
PBILDT	12.20	8.94	17.43
PAT	2.20	6.15	10.49
Overall gearing (times)	1.38	0.69	NA
Interest coverage (times)	5.62	6.67	32.28

A: Audited; UA: Unaudited; NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

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nnexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	2.00	CARE BBB+; Stable
Fund-based - LT-Term Loan	-	-	-	30-04-2028	7.50	CARE BBB+; Stable
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	1.00	CARE BBB+; Stable / CARE A2

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (27-Sep-22)	1)CARE BBB-; Stable (06-Oct-21)	1)CARE BBB-; Negative (07-Jan-21) 2)CARE BBB-; Negative (07-Jul-20)
2	Fund-based - LT-Cash Credit	LT	2.00	CARE BBB+; Stable	-	1)CARE BBB; Stable (27-Sep-22)	1)CARE BBB-; Stable (06-Oct-21)	1)CARE BBB-; Negative (07-Jan-21) 2)CARE BBB-; Negative (07-Jul-20)
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	1.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB; Stable / CARE A3+ (27-Sep-22)	1)CARE BBB-; Stable / CARE A3 (06-Oct-21)	1)CARE BBB-; Negative / CARE A3 (07-Jan-21) 2)CARE BBB-; Negative / CARE A3 (07-Jul-20)
4	Fund-based - LT-Term Loan	LT	7.50	CARE BBB+; Stable				

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings Limited has classified instruments rated by it on the basis of complexity. This classification is available at www.careedge.in. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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